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Federal Communications Commission
Office of Secretary

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the matter of

Implementation of the
Telecommunications Act of 1996

Accounting Safeguards under the
Telecommunications Act of 1996

CC Docket No. 96-150

**PETITION OF AMERITECH
FOR RECONSIDERATION OR CLARIFICATION**

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February 20, 1997

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Ameritech hereby seeks limited reconsideration of the Commission's recent Report and Order on the accounting safeguards under the Telecommunications Act of 1996.¹ Specifically, Ameritech requests the Commission to slightly revise Section 32.27(c) of the Rules (Transactions with Affiliates)² to permit the use of fully distributed cost in

¹ *In re* Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order, FCC 96-490, released Dec. 24, 1996 (hereinafter "Order").

² 47 C.F.R. § 32.27(c).

valuing the services provided by a carrier to an affiliate that exists solely to provide services to the carrier's corporate family.

In the Order, the Commission revised the affiliate transaction rules to apply to service transactions the same valuation rules that already applied to asset transfers. This was done because "our current valuation rules may entice a carrier to pay its nonregulated affiliate more for a service than the carrier would pay a third party for the same service." This incentive, the Commission concluded, could result in ratepayer harm. (Order at ¶ 145). As a result, Section 32.27(c) was modified to require (a) that services provided by a carrier to affiliates which are not subject to the tariff rate or prevailing price valuation standard be provided at the *higher* of estimated fair market value or fully distributed cost, and (b) that services received by a carrier from affiliates be provided at the *lower* of estimated fair market value or fully distributed cost.

However, the Commission did allow an exception to this valuation method. When a carrier purchases services from an affiliate that "exists solely to provide services to members of the carrier's corporate family" [underscoring in original], the services are to be valued at fully distributed cost regardless of estimated fair market value. Ameritech submits that this exception should be expanded slightly to include

transactions in the opposite direction *i.e.*, to provide for the use of fully distributed cost as the valuation standard when the carrier provides services to an affiliate that exists solely to provide services to the carrier. A suggested form of rule revision to accomplish this change is attached to this Petition.

This revision is necessary to avoid unnecessary administrative expense and artificially inflated costs that would provide no benefit to the ratepayer. For example, if a carrier is providing occupancy space and office support to its services affiliate, the carrier would be required under the rules adopted in the Order to perform a fair market valuation study and to value the service at the higher of estimated fair market value or fully distributed cost. The services affiliate however, which by definition exists solely for the benefit of the carrier, bills virtually all of its costs back to the carrier. Irrespective of whether the fair market value exceeds the fully distributed cost, the carrier incurs the cost of conducting a fair market study, and in those instances when fair market value is applied, it is the carrier that ultimately pays a higher price for the service, since the costs are billed back to the carrier. This results in increased costs to the carrier with no ratepayer benefit.

In addition, the carrier has no incentive to charge the affiliate more than it would if the service were provided by third parties, because the costs incurred are simply billed back to the carrier. Consequently, the reasoning that underlies the adoption of the new valuation standard — *i.e.*, the possibility of perverse carrier incentives and the need to protect ratepayers — is obviated.

The Ameritech operating companies provide administrative and office support-type services to Ameritech Services, Inc., which is the services affiliate that is wholly owned by and exists solely to provide services to the regulated operating companies and whose costs are billed back to the operating companies. If the determination is made that the estimated fair market value was greater than the fully distributed cost, the carrier, under the rules that have just been adopted, would be required to bill the greater amount. The amount exceeding the fully distributed cost, however, would be billed back to the operating company. It is therefore clear that the carrier has no incentive to bill more for a service based on a fair market study and, even presuming that such an incentive exists, the ratepayer certainly receives no benefit.

For the foregoing reasons, the Commission should amend its affiliate transaction valuation standards to exempt carriers providing

services to affiliates when such affiliates exist solely to provide services to the carriers.

Respectfully submitted,



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AMERITECH
Attachment
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Section 32.27 Transactions with affiliates.

(c) * * * For all other services received by a carrier from its affiliate, the service shall be recorded at the lower of fair market value and fully distributed cost, except that services received by a carrier from its affiliate or provided by a carrier to its affiliate when such affiliate ~~that~~ exists solely to provide services to members of the carrier's corporate family shall be recorded at fully distributed cost.

* * *

(underlining = addition)

(* * * = No change to existing text)

(~~strikeout~~ = deletion)

CERTIFICATE OF SERVICE

I hereby certify that on this 20th day of February, 1997, the foregoing Petition of Ameritech for Reconsideration or Clarification was served by depositing copies thereof in the U.S. Mail at Chicago, Illinois, addressed to each person shown on the following list.



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